AUG 1 - 2013

# DECLARATION OF RICK L. MOORE SENIOR VICE PRESIDENT, AT&T INC.

Federal Communications Commission
Office of the Secretary

I, Rick L. Moore, hereby declare the following:

- 1. My name is Rick L. Moore. I am the Senior Vice President of Corporate

  Development for AT&T Inc. ("AT&T") with responsibility for all of AT&T's strategic

  initiatives involving mergers, acquisitions, dispositions, and other significant transactions. For

  over 20 years I have been involved in the analysis, negotiation, and implementation of numerous

  transactions on behalf of AT&T and its affiliates. I joined the company in 1976 and held various
  sales, product marketing, and product management positions before moving to strategic planning
  and corporate development matters beginning in 1983. I hold a B.S. degree in Economics from

  Southwest Missouri State University.
- 2. I have knowledge of and participated in the strategic business decisions that led AT&T to pursue the merger with Leap Wireless International, Inc. ("Leap"). I also have reviewed the declarations of William Hogg, Senior Vice President of Network Planning and Engineering, AT&T Services, Inc., and S. Douglas Hutcheson, Chief Executive Officer for Leap, in this proceeding and have relied on them in developing this testimony. In addition, I have consulted with other AT&T executives in developing my testimony.
- 3. The purpose of this Declaration is to explain AT&T's strategic rationale for this transaction; describe how the combination of AT&T and Leap will give consumers nationwide greater choice and an improved suite of "prepaid/no-contract" offerings; and summarize AT&T's analysis of the cost savings and other economic synergies from the transaction. The

<sup>&</sup>lt;sup>1</sup> "Prepaid/no-contract" means wireless services for a flat rate without requiring a fixed-term contract.

declaration of my colleague, Mr. Hogg, describes how the combination of AT&T and Leap will enable a better network experience for customers of both companies.

#### I. INTRODUCTION

- 4. This transaction will bring together Leap's "Cricket" brand, distribution network, customer base, and experience in selling prepaid/no-contract service with AT&T's nationwide 4G LTE and HSPA+ network, advanced devices and services, and financial resources. Consumers nationwide will have an improved alternative for high-quality and affordable prepaid/no-contract wireless services. AT&T will offer a full range of prepaid/no-contract services as well as a high-quality wireless experience. This will include low-cost, value priced products as well as higher end, data-oriented products.
- 5. For Leap customers, the transition to AT&T will produce tangible and immediate benefits. As described in the declaration of Mr. Hutcheson, Leap faces serious limitations that prevent it from establishing a meaningful national presence and deploying LTE on a widespread basis.<sup>2</sup> This transaction will take the Cricket brand national and use Leap's distribution network and recognized brand name as a platform for a more competitive national prepaid offering to consumers.
- 6. Another important benefit relates to Leap's spectrum. As explained in greater detail by Mr. Hogg, the combination of AT&T's and Leap's network assets will allow the combined company to provide an improved network experience to its customers. The transaction will maximize the utility of Leap's spectrum holdings, which can be deployed to enhance AT&T's 4G LTE network. And, AT&T will integrate a few thousand complementary

<sup>&</sup>lt;sup>2</sup> Declaration of S. Douglas Hutcheson, Chief Executive Officer, Leap Wireless International, Inc. ¶¶ 4-15 (August 1, 2013) ("Hutcheson Decl.").

Leap cell sites, which will provide increased cell density and greater capacity in certain areas of its network.

7. The transaction will result in significant network and operating savings and other synergies. Interconnection and backhaul expenses will be reduced; roaming expenses will decrease; redundant cell sites will be decommissioned; customer acquisition and customer care costs and certain other scale-based costs will decrease; and there will be an overall reduction in general and administrative costs.

## II. THE TRANSACTION WILL LEAD TO EXPANDED AND IMPROVED CHOICES FOR CONSUMERS AND WILL INCREASE COMPETITION

- 8. By combining Leap's Cricket brand, customer base, distribution network, and experience in selling prepaid service with AT&T's nationwide 4G LTE and HSPA+ network, device portfolio, and financial resources, the transaction will enable AT&T to offer an improved, nationwide prepaid/no-contract product and enhance its ability to compete against other strong providers.
- 9. As explained in Mr. Hutcheson's declaration, Leap has an established prepaid/no-contract business, but now faces numerous limitations and challenges, such as a limited, facilities-based LTE footprint, limited spectrum depth, limited MVNO customer base, and other disadvantages that prevent it from competing nationally and have reduced its overall competitive capabilities.<sup>3</sup> While AT&T has been marketing prepaid services under the "AT&T GoPhone" brand for many years, it has done so primarily as a complement to its postpaid business and AT&T generally has not aimed to match the offerings of prepaid/no-contract companies such as Cricket and others, particularly in recent years. AT&T GoPhone has not achieved nearly the

<sup>&</sup>lt;sup>3</sup> *Id.* ¶¶ 3-15.

same level of customer appeal as AT&T postpaid service. I understand from the GoPhone marketing team that GoPhone is aimed primarily at capturing incremental customers who do not qualify for, or whose wireless needs are not a good match for, AT&T's postpaid plans. For instance, GoPhone does not offer smartphone rate plans with large data options, as other prepaid providers offer, since AT&T prefers to address demand for such offerings through its postpaid service.

- 10. In an attempt to increase its appeal to a broader set of customers, AT&T recently launched a new brand, "Aio Wireless" ("Aio"), initially in three metro areas. Aio was conceived as a start-up, completely separate and apart from the AT&T brand and existing distribution channels. Today, Aio still needs to establish widespread retail distribution, build brand recognition, and develop a significant customer base.
- 11. Leap, in contrast, has an established prepaid Cricket brand that is well-known in its service area<sup>5</sup> and that AT&T intends to retain and expand nationwide. Equally important, Leap has an established distribution network, a significant subscriber base of about 4.8 million customers (as of June 30, 2013), and experience in marketing and selling no-contract service, all of which can be leveraged to expedite AT&T's establishment of a competitive nationwide presence more rapidly than AT&T's new brand could achieve on its own.
- 12. For example, Leap's existing distribution system will facilitate AT&T's planned national rollout of its new prepaid offering in a number of markets where AT&T otherwise would have to identify and establish new retail channels for Aio. Resources currently allocated

<sup>&</sup>lt;sup>4</sup> On May 9, 2013 Aio launched in Houston, Orlando, and Tampa. It has since expanded to four additional Florida markets and will continue to roll out distribution channels in other markets. Aio's current plans forecast completion of a national retail rollout for 220 million retail POPs by the end of 2016.

<sup>&</sup>lt;sup>5</sup> Hutcheson Decl. ¶ 3.

for Aio's rollout of retail distribution channels in those markets can be redeployed for expansion in other areas, which will further accelerate the establishment of a nationwide presence. In addition, Leap's prepaid subscriber base of about 4.8 million customers (as of June 30, 2013), would enable AT&T to reach scale sooner than was projected for Aio, thereby lowering certain of AT&T's operating costs on a per customer basis, as described in Section IV below.

- 13. After the transaction, the Cricket brand will be distributed nationally, and its customers will have access to improved prepaid/no-contract offerings and a nationwide 4G network. As explained in Mr. Hutcheson's declaration, it would be difficult, if not impossible, for Leap to accomplish these goals on its own.<sup>6</sup>
- 14. AT&T can integrate certain valuable elements of Leap's prepaid business with AT&T's nationwide 4G LTE and HSPA+ network, advanced suite of devices and services, and financial resources to provide a full range of improved prepaid/no-contract offerings on a nationwide basis. Accordingly, the proposed transaction will enable the combined company to better compete for prepaid subscribers.

### III. THE COMBINATION OF LEAP'S AND AT&T'S NETWORKS WILL PROVIDE CUSTOMERS WITH AN IMPROVED WIRELESS EXPERIENCE

15. As discussed above, Leap customers will benefit from improved service quality and a broader range of advanced products and services. AT&T's nationwide network provides its wireless customers with a level and variety of services that Leap cannot offer. At the same time, as part of AT&T's plan to preserve and expand the Cricket brand, low-cost devices and low-cost services will remain available to value-driven customers. Accordingly, AT&T will address the needs of all prepaid subscribers, including those who value low-cost options.

<sup>&</sup>lt;sup>6</sup> Hutcheson Decl. ¶¶ 7-9, 15.

- 16. Leap customers will have access to a significantly superior, nationwide 4G network, which Leap could not develop on its own, given its limited footprint and spectrum and its declining financial and competitive condition. AT&T's nationwide deployment of 4G LTE and HSPA+ will offer a significantly greater on-net 4G footprint compared to Leap's current network deployment. AT&T also will be able to integrate many existing Leap cell sites into its network, providing greater cell density, increasing network capacity, and improving network performance in these areas for customers of both companies.<sup>7</sup>
- over the enhanced and expanded networks that will result from the deployment of unused spectrum, the integration of the Leap and AT&T networks, and the densification of cell sites. Given Leap's current limited 4G LTE rollout (11 metro areas covering 21 million POPs) and deployment plans, Leap customers will gain access to a broader and more robust LTE network as a result of the transaction. While Leap has deployed LTE in a handful of metro areas, those deployments have been in spectrally inefficient, small block 3x3 MHz or 5x5 MHz configurations that generally support throughput speeds on par with AT&T's HSPA+ network and lower than AT&T's more robust LTE network, which typically deploys 10x10 MHz configurations. As Mr. Hogg describes, because of AT&T's more spectrally efficient LTE and HSPA+ technologies, customers of both companies, in particular Leap customers who only have access to CDMA EVDO services today, will see improvements in throughput speeds and

<sup>&</sup>lt;sup>7</sup> Declaration of William Hogg, Senior Vice President of Network Planning and Engineering, AT&T Services Inc., ¶ 10 (August 1, 2013) ("Hogg Decl.").

<sup>&</sup>lt;sup>8</sup> *Id.* ¶ 11.

<sup>&</sup>lt;sup>9</sup> Hutcheson Decl. ¶ 9.

<sup>&</sup>lt;sup>10</sup> Hogg Decl. ¶¶ 5, 11. The peak data rate for a 10x10 MHz block, for example, is twice that of a 5x5 MHz block. *Id.* ¶ 11 n.6.

- latency.<sup>11</sup> These speed and spectral efficiency improvements translate into an improved customer experience, including, among other benefits, faster streaming of video, faster uploading of image and video files, and a more responsive and robust web browsing experience.<sup>12</sup>
- 18. AT&T will offer superior choice in handsets; more robust data services; and access to AT&T's nationwide network footprint and Wi-Fi hotspots across the country. We will honor the rate plans of existing Leap customers. For new customers, AT&T will continue to offer competitive rate plans that appeal to value-conscious customers, including the option of choosing low-cost devices and low-cost services.
- 19. AT&T will be able to transition Leap customers in a timely and efficient manner so that they swiftly receive the benefits of AT&T's network. AT&T has experience with integrating networks and transitioning customers following previous transactions. In his declaration, Mr. Hogg has described AT&T's plans to integrate Leap's network assets quickly and efficiently to improve the network experience of customers of both companies.

#### IV. THE TRANSACTION WILL RESULT IN SUBSTANTIAL COST SAVINGS AND OTHER SYNERGIES

20. We estimate that the transaction will result in significant savings in network and operating costs and other synergies. To determine the value of the expected synergies in this transaction, we took the same approach as in prior transactions by building a pro forma view of how the integrated company would operate, as compared to the operations of AT&T and Leap as standalone companies. We utilized a standard discounted cash flow methodology of the sort typically employed by AT&T and many other companies to calculate the net present value of

<sup>&</sup>lt;sup>11</sup> *Id.* ¶ 11.

<sup>&</sup>lt;sup>12</sup> *Id*.

<sup>&</sup>lt;sup>13</sup> AT&T has more than 32,000 Wi-Fi hotspots nationwide.

synergies. The inputs for this process included consultations with subject matter experts in the Aio organization, finance, and network planning and engineering to obtain informed views about key parameters, and then to test and validate our assumptions. Our methodology also was informed by our past experience from other transactions and integration efforts. These and other inputs were all factored into our methodology to determine the expected cost savings and other synergies in the categories described below.

- 21. Network Benefits. We expect significant cost savings from combining the networks of the two companies. Many of Leap's cell sites will be productively integrated into our network to increase capacity, as Mr. Hogg explains in his declaration, but other sites will be decommissioned without affecting network performance. This will eliminate lease, utility, maintenance, and other site-related expenses. We also expect to reduce interconnection and backhaul expenses, as compared to what Leap would have paid on its own, by switching to existing AT&T facilities where possible and by utilizing our increased scale, as compared to Leap's, to negotiate improved rates.
- operational Benefits. We expect that the transaction will reduce numerous operational costs. For example, the roaming expenses that Leap would have paid as a standalone company will be substantially reduced because AT&T will offer a significantly greater on-net footprint and expanded coverage in comparison to Leap's current network. We will optimize the combined company's distribution network to enhance both retail coverage and customer service while eliminating significant cost. AT&T will be able to maximize the effectiveness of its advertising and marketing spend. In addition, there are substantial synergy opportunities in the area of customer support, equipment, and general and administrative costs. These include cost savings that will result from combining and optimizing customer support functions, including

call center and billing operations, while maintaining a high level of support. There also will be cost savings from removing redundancy in corporate and overhead functions.

- 23. Other Synergies. We expect that AT&T's more attractive service offerings, as compared to those that Leap could have offered on its own, and improved network performance, as compared to Leap's network, will reduce churn, allow the combined company to attract and retain a larger share of new prepaid customers, and increase prepaid smartphone sales.
- 24. We intend to treat both AT&T's and Leap's employees fairly in the integration process. AT&T is one of the largest private-sector employers of full-time union labor. AT&T provides well paying jobs with benefits and respects the rights of its workers by remaining neutral and allowing them the choice of union representation. AT&T is committed to investing in our employees so they can help us deliver the benefits of this transaction to our customers. Because AT&T intends to maintain Leap's sales and distribution systems, jobs in those areas largely will be preserved. Overall, force reduction will largely occur through natural attrition across the work forces of both companies.
- 25. AT&T has a history of successfully integrating complex, value-creating acquisitions. The insights we have gained in prior integration efforts will be applied to the integration of Leap's operations. For example, AT&T met the synergy targets set for network integration and expansion in connection with the acquisition of Centennial Communications Corp. in 2009. Centennial had not commercially deployed 3G on the U.S. mainland before being acquired by AT&T. In the continental U.S., AT&T successfully upgraded the 2G network in the acquired footprint.
- 26. AT&T also realized customer experience and billing and care synergies for the transaction. The company maintained legacy centers to support legacy customers until they were

migrated to the new network. As a result, AT&T's integration of customer care call centers closely followed the network integration and enhancement and maintained a high level of customer care and experience.

- 27. AT&T also has successfully integrated the assets it acquired in 2010 from Verizon Wireless, in connection with Verizon's acquisition of Alltel Corporation. The customer migration process was successfully completed on time and as projected, and AT&T retained more customers than expected. Network integration and enhancement were accomplished while providing a high quality of services and benefits to customers.
- 28. The merger of AT&T Wireless and Cingular in 2004 is another example of our ability to execute on synergy plans. Within two years of the transaction, most of the integration work was complete, and merger synergies were being realized. By 2006, we dramatically expanded our 3G footprint in the combined company's network. After the acquisition, we improved Cingular's customer retention and at the same time achieved lower operating expenses associated with sales, customer care, certain network costs, and general and administrative functions. Additionally, within three years of the acquisition we were able to outperform our own integration plans in key areas such as IT and billing, sales, and marketing as a result of efficiencies associated with the acquisition.
- 29. The insights we have acquired through such prior merger integration efforts will be applied to the integration of Leap's operations, resulting in cost savings and synergies from the proposed transaction.

#### V. CONCLUSION

In sum, the combination of Leap and AT&T will create a competitive nationwide provider of high-quality and affordable prepaid/no-contract wireless services and the transaction will enable the combined company to compete more effectively for prepaid/no-contract subscribers. The proposed transaction will result in numerous benefits for customers of both companies, including improved nationwide prepaid/no-contract offerings, a superior range of devices and wireless services, a better network experience from utilization of Leap's unused spectrum and the combination of both companies' network assets, and substantial operating cost savings and synergies.

I declare under penalty of perjury that the foregoing is true and correct. Executed on August 1, 2013.

Signed:

Rick L. Moore

Senior Vice President of Corporate Development

AT&T Inc.